

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
)
Federal-State Joint Conference) WC Docket No. 02-269
On Accounting Issues)
)

Comments of TCA

I. Introduction and Summary

TCA, Inc. - Telcom Consulting Associates (“TCA”) hereby submits these comments in response to the Public Notice¹ issued in the above-captioned proceeding. The Federal-State Joint Conference on Accounting Issues (“Joint Conference”) has requested comment on a number of issues surrounding regulatory accounting and reporting requirements. The goal of this proceeding, to ensure that regulatory and accounting reporting requirements are adequate and effective in the current market to protect consumers and carry out federal and state regulatory responsibilities, is an important one and relates to recent Federal Communications Commission (FCC) action to *reduce* accounting and reporting requirements².

TCA is a consulting firm that performs financial, regulatory, management, and marketing services for over fifty small, rural local exchange carriers (LEC) throughout the United States. TCA’s clients are rate-of-return regulated rural local exchange carriers (RLECs) and therefore will be directly impacted by the FCC’s actions in this proceeding. These comments address the concerns of TCA’s clients.

¹ Public Notice, DA 02-3449, released December 12, 2002 (“Public Notice”).

² *2000 Biennial Regulatory Review—Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; Amendments to the Uniform System of Accounts for Interconnection; Jurisdictional Separations Reform and Referral to the Federal-State Joint Board; Local Competition and Broadband Reporting*, Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286; Further

TCA urges the Commission to proceed with caution when altering accounting and reporting requirements for small RLECs³. RLECs, for the most part, are regulated by the state commissions, and as such, are subject to sometimes substantial financial and regulatory reporting requirements. In addition, RLECs report financial and regulatory information to various other regulators and stakeholders, such as the FCC, the National Exchange Carriers Association (NECA), and the Rural Utilities Service (RUS). Since it is highly unlikely that any accounting irregularities, to the extent such irregularities exist, occurring in small RLEC books would impact the telecommunications industry to the extent Worldcom, Qwest, and Global Crossing alleged irregularities did, additional reporting requirements for small RLECs are not necessary.

In addition to examining accounting and reporting requirements for incumbent LECs, the Commission should also take this opportunity to adopt reporting requirements for competitive carriers, in particular competitive carriers that have obtained eligible telecommunications carrier (ETC) designation. The Commission will hear from other incumbent LECs that the accounting and reporting requirements being considered in this proceeding are obsolete in certain circumstances, and that accounting and reporting requirements should be applied equally to all carriers. In the case of rate-of-return regulated small RLECs, there is still a need for regulatory accounting and reporting, and therefore all carriers should be held to some level of accountability.

II. Phase II Accounting Order

The Public Notice requests comment in two main areas – the issues addressed in the Phase II order, and a number of broader questions. The Phase II accounting order revised the Part 32 accounts for both Class A and Class B LECs⁴. Some of the account eliminations and consolidations were made by the FCC without regard to state, lender, or internal management reporting needs, and therefore caused no small amount of confusion. In many instances, the accounts eliminated and/or consolidated, if adopted by RLECs, have the potential of causing certain RLECs to be out of compliance with regulations, rules, and even laws. Therefore, TCA

Notice of Proposed Rulemaking in CC Docket Nos. 00-199, 99-301, and 80-286, 16 FCC Rcd 19913 (2001) (*Phase II Accounting Order* and *Phase III Further Notice*); 47 C.F.R. § 32 *et seq*

³ Small RLECs represented by TCA all have fewer than 2% of the Nation's subscriber lines.

⁴ Many small RLECs utilize Class A accounts in order to provide for more accounting detail.

recommends the Commission carefully reconsider all changes made to the Part 32 uniform system of accounts (USOA), and, if necessary, make such changes explicitly mandatory (after due consideration by the Joint Accounting Conference) or optional (and thereby retain certain accounts that carriers can continue to utilize).

Of particular concern to RUS borrowers is the position RUS has taken regarding the Part 32 USOA changes brought about by the Phase II accounting order. In correspondence sent to all RUS borrowers, the RUS requested “that our borrowers not adopt any of the FCC Part 32 changes scheduled to take effect January 1, 2003.”⁵ Conflicting views such as provided by RUS caused many RLECs to not make changes to computerized accounting systems, and yet many of the accounts retained no longer were contained in the Part 32 USOA.

III. Broader Issues

The Public Notice brings up a number of broader issues related to financial and regulatory reporting. Many of these issues speak to increased reporting requirements, mostly in the name of increased regulatory scrutiny designed to avoid future accounting regularities by large carriers. TCA recommends the Commission not adopt further accounting and reporting requirements for small RLECs. A vast majority of small RLECs are regulated by a state commission, and any financial or regulatory reporting designed to root out accounting misdeeds would be made to the state commission. The state commissions, as a result, have ample authority to require additional reporting, audits, and other reviews if certain circumstances dictate. There is no benefit to small RLECs, their customers, or the state commissions for the FCC to mandate additional reporting or accounting requirements.

The public notice brings up one point that deserves further comment – “*Whether the FCC and/or the states should increase their financial monitoring of any telecommunications carriers, including incumbents or competitive carriers.*”⁶ The FCC and the states should most definitely increase financial monitoring of competitive carriers, especially those that have sought and received ETC status (competitive ETCs or CETCs). CETCs are eligible to receive federal universal service support, state universal service support, or both, and yet have absolutely no requirement to report to the appropriate regulatory body, nor do the CETCs subject themselves to

⁵ December 20, 2002 correspondence from Kenneth M. Ackerman to “all telecommunications borrowers” and “all public accounting firms”.

any type of regulatory monitoring. This is especially true of wireless ETCs that, when threatened with any type of state commission regulation, throw Section 332 up as a roadblock⁷. However, once a wireless carrier becomes a CETC, and begins receiving universal service support, it becomes a recipient of a scarce source of public support and should be held accountable to some degree. In addition, all ETCs, including competitive wireless ETCs, are to be certified annually by the state commission under Section 254(e) of the federal act. Without some type of accountability, the state commission cannot be assured that wireless CETCs are using support for the purposes intended by national universal service policies.

IV. Conclusion

TCA urges the Commission to proceed with caution in adopting additional accounting and reporting requirements for small RLECs – to do otherwise would cause additional costs on the RLECs and their customers without discernable customer benefit. Instead, the Commission and Joint Conference should take this opportunity to reconsider the Commission’s Phase II accounting order and arrive at a Part 32 USOA that meets, as closely as possible, the needs of all stakeholders in the telecommunications industry – the FCC, state commissions, and lenders especially. Finally, the Joint Conference should recommend, and the Commission should adopt, national guidelines for CETC accountability and financial reporting.

Respectfully submitted,

[electronically filed]

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⁶ Public Notice, 7th point under “broader issues”.

⁷ Section 332 of the Telecommunications Act does not allow state commissions to regulate wireless carriers as to entry or rates.